



Memorandum # 26/2003

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission
Five Middlesex Avenue, Third Floor, Somerville, MA 02145
Ph 617 666 4446 | Fax 617 628 4002 | TTY 617 591 8917 | www.mass.gov/perac
Robert E. Tierney, *Chairman* | A. Joseph DeNucci, *Vice Chairman*
C. Christopher Alberti | Kenneth J. Donnelly | Eric A. Kriss | James M. Machado | Donald R. Marquis
Joseph E. Connarton, *Executive Director*

MEMORANDUM

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Local Government Pension Holiday Program

DATE: August 6, 2003

PENSION HOLIDAY PROVISION

Section 128 of Chapter 46 of the Acts of 2003 establishes a so-called Municipal Local Option Unfunded Liability Pension Holiday (“pension holiday”). The bill was signed on July 31, 2003 and became effective immediately. This provision allows a city, town, district or authority to reduce their pension appropriation for fiscal years 2004 and 2005 for the municipalities unfunded pension liability to an amount less than the amount required by their current funding schedule. Please forward a copy of this Memorandum to the Legislative and Executive Authorities in the governmental unit(s) in your system.

Limitations on the Reduction

The reduced appropriation for fiscal years 2004 and 2005 cannot be less than the normal cost component of the appropriation required by the current schedule.

Also, the reduced appropriation cannot be reduced by an amount more than the amount by which the city or town was reduced in local aid payments, either in the aggregate or only the amounts appropriated for the purposes of lottery aid and additional assistance in the aggregate, received pursuant to section 3 of chapter 184 of the Acts of 2002, as further reduced pursuant to section 3 of chapter 26 of the Acts of 2003.

Further, no municipality may implement the pension holiday if it has available a special statutory emergency reserve that requires at least a balance of 2.5% of prior year non-school departmental appropriations and said balance is fully unexpended.

A final requirement is that the amount of the reduction in the appropriation resulting from the acceptance of the pension holiday must be expended solely for the direct benefit of the employees and retirees of the governmental unit who are members of the system.

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Government Unit Approval

The decision to accept the pension holiday is made by both the Executive and Legislative Authorities of the governmental unit that is reducing its appropriation. The "Executive Authority" is a mayor in a city, the board of selectmen in a town or whoever is designated as such by a city or town charter. The "Legislative Authority" is the city council in a city, the town meeting in a town or the town council in a city or town that has a council form of government. This Section should be accepted by December 15, 2003 to allow the revised funding schedule to be prepared.

Notice to Legislative and Executive Authority by the Retirement Board

Upon request, PERAC will assist any board with a preliminary estimate of the impact of acceptance of the pension holiday in order to allow the board to provide guidance to its governmental units.

A notice from the retirement board must be provided to the respective Legislative Authority notifying them of the pension holiday option. Included in the notice must be a summary of the existing funding schedule setting forth the normal cost and the amortization component of fiscal year 2004 and fiscal year 2005 appropriations and a description of the estimated impact of reducing that appropriation on future appropriations.

This notice must be submitted to the Legislative Authority on or before the fifteenth day after the acceptance of this Section by a governmental unit. PERAC will help boards produce this notice for any board whose governmental unit accepts this Section.

In a city, town, district, or authority, the employees of which are members of a county or regional system, the retirement board must provide the notice of the option of the pension holiday. In any system in which the appropriation is allocated in accordance with the proportion that the aggregate of the annual rates or regular compensation of all members of such system who are employees of any such governmental unit bears to the total of all such aggregates for all such members of such system, the Actuary will provide the retirement board with an estimate of the normal cost component of the appropriation and the amortization component of the appropriation required by such city or town for fiscal year 2004 and fiscal year 2005.

PERAC/Department of Revenue Approval

No city or town can implement the pension holiday without the approval of the Department of Revenue and PERAC. A form will be provided to allow DOR and PERAC to notify the board of their approval.

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Actuarial Issues

Upon notification by the Clerk of the Legislative Authority of the amount of the reduction in the pension appropriation, the retirement board must notify the Actuary who shall issue a revised appropriation letter. The Actuary will work with each board that accepts the pension holiday to determine a revised funding schedule on a case-by-case basis.

In any city, town, district, or authority which accepts the pension holiday, the retirement board, must, on or before January 1, 2004, submit to the Actuary a revised funding schedule that incorporates the impact of reducing the appropriation for fiscal year 2004 and/or 2005; provided, however, that the said revised schedule and any future updates thereto may be designed to reduce the unfunded actuarial liability of said system to zero no later than one year after said fully funded due date if one year is taken, but in no case shall the due date extend beyond June 30, 2028.

We trust the foregoing is of assistance. If you have further questions or concerns, please contact this office.